

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON THE JOHN TAOLO GAETSEWE DISTRICT  
MUNICIPALITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the John Taolo Gaetsewe District Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

**Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010, as amended) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor-general's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### **Revenue**

7. The occurrence, accuracy and classification of revenue disclosed as R127 938 050 in the statement of financial performance could not be confirmed, due to the following:

- Sufficient appropriate audit evidence for other income amounting to R7 853 510 could not be obtained. (Ex 70)
- An amount of R4 107 000 receivable in terms of DoRA relating to the integrated national electrification grant was not accounted for in the financial statements. Sufficient appropriate audit evidence to support the omission of this amount could not be obtained. (Ex 95)

The municipality's records did not permit the application of alternative procedures.

### **Property, plant and equipment**

8. The existence, completeness, rights and valuation of property, plant and equipment disclosed as R108 240 686 (2009-10: R108 399 428) in note 11 to the financial statements could not be confirmed as movable assets amounting to R240 586 could not be traced to the asset. This was also reported in the prior year, but the amount could not be determined due to the application of directive 4 in prior years.
9. SA Standards of GRAP 17, *Property plant and equipment* prescribes the accounting treatment of movable assets. A recalculation of depreciation indicated that assets were overstated by R848 033, depreciation understated by R1 127 322 and accumulated profit understated by R279 289. In the prior year the understatement of assets amounted to R2 848 397, but as disclosed in note 39 some of these misstatements were corrected by way of prior year corrections.

### **Operating deficit from discontinued operations**

10. SA Standards of GRAP 9, *Revenue for exchange transactions* prescribes the accounting treatment of revenue. The operating deficit from discontinued operations amounting to R4 414 254 includes service income amounting to R12 099 178. As a result of differences between the readings on the meter books and readings captured in the accounting records, service charges were understated by R966 915, while output value-added tax (VAT) was understated by R135 365. Receivables from exchange transactions were also understated by R1 102 280. (Ex 48)

## **Qualified opinion**

11. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the John Taolo Gaetsewe District Municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Irregular expenditure**

13. Irregular expenditure amounting to R61 024 225 disclosed in note 46.3 of the financial statements was incurred as the municipality failed to obtain conflict of interest confirmations as required by section 13(c) of the SCM regulations.

### **Restatement of corresponding figures**

14. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during the year ended 30 June 2011 in the financial statements of the municipality at, and for the year ended, 30 June 2011.

### **Additional matter**

15. I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **Unaudited supplementary schedules**

16. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

17. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

### **Predetermined objectives**

### **Presentation of information**

### **Non-compliance with regularity requirements**

18. I was unable to conduct the audit of performance against predetermined objectives as the municipality did not submit the annual performance report as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and section 121(3)(c) of the MFMA.

### **Compliance with laws and regulations**

### **Strategic planning and performance management**

19. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the MSA and Municipal Planning and Performance Management Regulations 7 and 8.
20. The accounting officer of the municipality did not, by 25 January, assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72(1)(a)(ii) of the MFMA.

## **Budget**

21. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

## **Annual financial statements, performance and annual report**

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements on property, plant and equipment, employee benefits, receivables, revenue and disclosure notes identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a modified audit opinion.

23. The performance report for the financial year under review was not prepared as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

## **Audit committee**

24. The audit committee did not function as required by section 166 of the MFMA, in that:

- the audit committee did not advise the accounting officer of the municipality on matters relating to internal financial control and internal audits, risk management, accounting policies, performance management, effective governance, compliance with applicable legislation and performance evaluation
- the audit committee did not review the annual financial statements
- the audit committee did not respond to the council on any issues raised by the auditor-general in the audit report
- the audit committee did not meet at least four times a year.

25. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.

26. The audit committee did not advise the municipal council, the political office bearers, the accounting officer and the management staff of the municipality on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 166(2)(a) of the MFMA.

## **Internal audit**

27. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:

- the internal audit unit did not report to the audit committee on the implementation of the internal audit plan
- the internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to internal controls, accounting procedures and practices, risk and risk management and loss control.

28. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.

29. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as

required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14.

#### **Procurement and contract management**

30. Awards were made to suppliers that did not submit a declaration on their employment by the state or their relationship to a person employed by the state, as per the requirements of SCM Regulation 13(c).

#### **HR management**

31. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the MSA.
32. The municipal manager did not sign an annual performance agreement for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the MSA.

#### **Expenditure management**

33. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.
34. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised expenditure when it was incurred and accounted for creditors of the municipality, as required by section 65(2)(b) of the MFMA.
35. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Transfer and conditional grant**

36. The accounting officer did not evaluate the performance of the municipality in respect of programmes funded or partially funded by a schedule 4 allocation within two months after the end of the financial year, as required by section 11(6) of DoRA.

#### **Revenue management**

37. Interest was not charged on all arrear accounts, as required by section 64(2)(g) of the MFMA.
38. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA.
39. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it is earned, as required by section 64(2)(e) of the MFMA.

#### **Asset management**

40. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets including an asset register, as required by section 63(2)(c) of the MFMA.

## **INTERNAL CONTROL**

41. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with laws and regulations included in this report.

### **Leadership**

42. A new mayor was elected during the May 2011 local government elections. The municipal manager position was filled on 3 August 2010. The municipal manager unfortunately passed away after year-end and the position was not yet filled. The community service manager was currently acting as municipal manager.
43. The accounting officer did not ensure internal control procedures are developed, implemented and monitored that will ensure:
- monthly financial statements are prepared and are subjected to review
  - procedures are put in place to ensure work performed by junior officials is properly reviewed.
44. The accounting officer did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management had met its responsibilities in terms of maintaining the asset register and preparing annual financial statements.
45. The accounting officer did not implement and monitor corrective action relating to prior year external audit findings. An action plan to address the 2009-10 external audit findings was prepared but not implemented, resulting in the reoccurrence of many findings raised during the prior year audit.

### **Financial management**

46. The finance department lacked the technical understanding to prepare the financial statements. Consequently, consultants were appointed to prepare them. The financial statements prepared by the consultants were materially corrected to update misstatements identified during the audit.
47. The finance department lacked the technical understanding to compile the asset register and consultants were appointed to do it. The asset register included assets that could not be physically verified and a recalculation of depreciation and accumulated depreciation resulted in unexplained differences.
48. The financial statements were not submitted on the legislative deadline of 31 August 2011 as the municipality experienced system problems. Outstanding issues on the assets component also contributed to the late submission and the financial statements were only submitted on 21 October 2011.

### **Performance management**

49. The municipal manager did not implement performance management processes and did not delegate the function of collation of performance information to an official.

## **Governance**

### **Internal audit**

50. The municipality utilised the shared internal audit division within John Taolo Gaetsewe Municipality. The work of the internal audit division was inadequate for the purposes of the audit as the unit was not adequately staffed to fulfil its responsibilities as set out in paragraph 165 of the MFMA.

### **Audit committee**

51. The municipality utilised the shared audit committee within John Taolo Gaetsewe Municipality. The audit committee did function throughout the year, but did not fulfil all its responsibilities as set out in paragraph 166 of the MFMA.

*Auditor - general*

Kimberley

21 February 2011



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